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SIMPLE WORD OF MOUTH OR COMPLEX RESOURCE ORCHESTRATION FOR OVERCOMING LIABILITIES OF FOREIGNNESS

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ABSTRACT

Employing a resource orchestration framework to examine how participation in Diaspora networks helps transnational entrepreneurs diminish the liabilities of foreignness (LOF), we find that adding a time dimension to this framework helps to show how a sequence of processes is used to leverage network resources for diminution of LOF.

INTRODUCTION

International business research shows that firms operating outside their home countries face additional costs of conducting business activities in a host country commonly described as liabilities of foreignness (LOF) – costs that native actors do not usually incur (Hymer, 1976; Kindleberger, 1969; Zaheer, 1995; and Baik, Kang, Kim, and Lee, 2013). Most of the work on how firms cope with the liabilities of foreignness has focused on how companies develop or implement company-specific tangible assets (e.g. technological innovations) that compensate for the liabilities they experience (Caves, 1971; Hymer, 1976; and Zaheer, 1995), or how tangible assets facilitate building strong firm capabilities in the host country (e.g. purchase of knowledge) (Barnard, 2010). However, low-visibility new business actors are highly likely to lack financial resources or any easily commercialized firm-specific advantages and therefore cannot offset the liabilities of operating abroad. As a result, focusing only on *compensation* as the primary method of overcoming LOF would lead to a theoretical bias against the success of new business ventures. Observed reality is not consistent with such a bias, however, and we therefore need a more nuanced, inclusive model that explains how business actors can diminish liabilities of foreignness rather than simply offset them (Bhanji and Oxley, 2013).

This study explores the operations of transnational entrepreneurs (TEs) from Bulgaria in the UK, focusing on how these actors reduce LOF despite often being socially and economically disadvantaged. Transnational entrepreneurs, as defined by Drori, Honig, and Wright (2009:1006), are “entrepreneurs that migrate from one country to another, concurrently maintaining business-related linkages with their former country of origin and currently adopted countries and communities”. TEs coping with LOF and operating in the locus of ethnic Diasporas (the context where links and ties are maintained) are an excellent subject for researching strategies and mechanisms for reducing LOF. Thus, our focal question is: *How does*

participation in Diaspora networks help transnational entrepreneurs diminish liabilities of foreignness?

BACKGROUND CONCEPTS AND LITERATURE

Reducing LOF

The costs that constitute the LOF originate from foreign actors' difficulty to engage in the efficient management of the country-specific knowledge sources and flows. Difficulties in communication and understanding are principle causes of LOF (Schmidt and Sofka, 2009). LOF translate into higher uncertainty, occurrence of business errors, risks, and lower productivity (Lord and Ranft, 2000), but most importantly difficulty in structuring and bundling knowledge. It is necessary for foreign firms to overcome these burdens and secure coherence in interfirm and intrafirm communication, a vital mechanism for the legitimization of business actors' actions.

Network research has shown the importance of social and network capital in entrepreneurial companies (Birley, 1985; and Nahapiet and Ghoshal, 1998). Social networks serve as channels of knowledge and information, which can promote the effective alignment of knowledge or practices (Podolny, 2001). The work of Schmidt and Sofka (2009) and Johanson and Vahlne (2009) implies that one of the main factors underlying LOF for TEs is the inadequacy of their networks (Ostgaard and Birley, 1994). In this context, new TE actors might capitalize on the opportunity to use the legitimacy that they are granted by fellow ethnic Diaspora members based on cultural and social commonalities to reduce the potential friction between the host and home countries' cultures, which disrupts actors' market integration capacity and undermines legitimacy (Zaheer, 1995).

This leads us to the question what is an efficient way to acquire from this network what is needed to overcome the LOF; that is, how to structure a portfolio of knowledge and how to bundle it to create alignment with the host-country market.

The Resource Orchestration Framework

Current literature suggests that not only resources (social and non-social capital) but also resource-related processes need to be examined (Kraaijenbrink, Spender, and Groen, 2010); as Hansen, Perry, and Reese (2004: 1280) have said, "what a firm *does* with its resources is at least as important as *which* resources it possesses". This study is in alignment with the notion that resources alone are not sustainable sources of competitive advantage, but that it is rather the effective *structuring* (acquiring, accumulating and divesting resources), *bundling* (stabilizing, enriching and pioneering), and *leveraging* (mobilizing, coordinating and deploying) of resources that makes the difference (Sirmon and Hitt, 2003; Sirmon, Hitt, and Ireland, 2007; and Sirmon, Hitt, Ireland, and Gilbert, 2011). For that reason, we ground our study on *the resource orchestration* framework, developed by Sirmon, Hitt, Ireland, and Gilbert (2011) to characterize the operationalization of resources through process-focused dynamic capabilities.

METHODOLOGICAL APPROACH

Field of Observation and Data

In multiple-case investigations, Eisenhardt (1989) and Miles and Huberman (1994) suggest limiting the number of cases examined to a maximum of 15 when investigating a phenomenon of high complexity. Following this recommendation, the current study is based on the investigation of 12 cases. The selected field of observation consists of Bulgarian transnational entrepreneurial companies located and operating in London. London was selected as the geographical context of this study because, according to the 2011 labour force report of the UK Office for National Statistics, London is home to 46% of all self-employed foreign-born workers in the country.

The selected sampling technique is non-probability, purposeful sampling, which involves purposefully drawing potential subjects for exploration from a list of more than 130 companies operating in the UK, obtained from the Embassy of the Republic of Bulgaria. The approached entrepreneurs have been filtered by means of a survey that had the purpose of separating transnational entrepreneurs from the ethnic ones, as well as making sure that the selected cases fulfil other set criteria. The selection criteria were that companies fall under the definition of transnational entrepreneur found in Drori, Honig, and Wright (2009), are considered SMEs, are located in the Greater London area, and engage in service consulting operations (as declared in their company profile).

The range of the age of the selected businesses is from 4 to 20 years and the range of the number of employees is from 5 to 60 people. Of the selected companies, two are food and beverage retailers; the others are providers of high value-added services. The observed overall knowledge intensity of the companies is predominantly high, a characteristic that coincides with the fact that all of the involved companies have declared themselves to be engaged in consulting operations in their company profiles.

Data Reduction and Analytical Approach

Having conducted participant observations during social events organized by the British-Bulgarian Chamber of Commerce, the Embassy of the Republic of Bulgaria, and individual actors' business meetings, it was possible for the researcher to have a better grasp of the entrepreneurs' social representation strategies. All accounts have been transcribed and the non-numerical data has been analyzed through critical discourse and narrative analysis. Due to the richness of the collected data, the records were examined within the NVivo research software. Word and phrase counts were implemented, which supported aspirations for attaining unbiased coding and allowed the emergence of theoretical constructs that explicate the research phenomenon.

FINDINGS

Transnational entrepreneurs constitute active sub-communities within the ethnic and cultural organizations they belong to. The system of knowledge "trading" within the Diaspora organization attracts newcomers seeking knowledge. By functioning as an ecosystem that organizes and provides relevant events such as networking, training and mentoring, the Diaspora community allows for the bridging of actors with similar entrepreneurial aspirations.

The Diaspora Network as an Arena for Resource Orchestration

The Bulgarian transnational entrepreneurs investigated here have a common strategy – network relatedness – for the purpose of compensating for undeveloped competences and unsatisfactory resource reserves. Examination of the discourse of the interviewed entrepreneurs has shown that knowledge sharing and construction within the Diaspora social structures assist entrepreneurs by providing them with focused market information, which in turn allows them to reduce LOF. This all goes on in connection with problem-solving processes regarded as a mechanism for transferring business ideas from multiple experienced parties. This mechanism has been observed in multiple cases, and the idea of recombination, with the consequent emergence of creative business solutions, is also encountered repeatedly, as illustrated in Entrepreneur C's statement that "[w]e [Diaspora members] are one team and we rely on each other's unique knowledge and experience. That combination of capabilities results in some very applicable ideas that help us not only finish a project but develop as an innovative company."

Knowledge Acquisition & Enrichment - "Preparation"

Interview data showed that the processes in which TEs engage to reduce LOF follow a particular sequence. The first knowledge acquisition activities in this sequence consist in *acquiring* and *enriching* knowledge (components of the *structuring* and *bundling* processes, respectively, in the resource orchestration model). *Acquiring* is part of TEs' attempts to prepare a portfolio of resources. This process refers not only to obtaining a resource, but also realizing that a resource could be extracted from their own transnational experiences and familiarity with the dual social field. *Enriching* denotes using the newly acquired or extracted knowledge to extend current capabilities and make them relevant to the host-country environment. Both preparation processes (acquiring and enriching) are gradual in nature and correspondingly motivated by the continuous association among network actors. And while both of them involve accessing and processing outside knowledge, both of these processes are motivated by purely internal perceptions of opportunities and strategies for exploiting them.

Knowledge Accumulation & Stabilization - "Paradigm Shift"

For Diaspora embeddedness to help TEs to acquire and integrate new tools for orientation in the host-country environment, they must first gain a new perspective, as illustrated by this quote from Entrepreneur K:

What I have in common with other entrepreneurs in the Diaspora is the vision that cooperation is beneficial. It is not only beneficial for my own initiatives, but also for the business of other partners. I admit that it took me some time to realize and start appreciating the functionality of that idea. I tried hard to understand what is going on here and how business is conducted. Nobody tells you that sharing is actually good in the long run. Of course, you get some signs from people, but during the very first steps you are on your own and getting your orientation [perspective] right is crucial.

When this has happened, the orientation of TEs becomes highly cooperative, and they become ready to share knowledge and reciprocate. This readiness to reciprocate is the most important characteristic distinguishing the phases following the paradigm shift from those preceding it. However, as indicated by K, this is not automatic. Adopting this cooperative

approach requires the entrepreneur to first move beyond the shared values and culture within the Diaspora network to the knowledge accumulation and stabilization processes referred to above.

Once this paradigm shift has occurred, the TEs' approach to the utilization of outside knowledge changes fundamentally; having previously been highly individualistic, it now acquires a more collective character. Attempts at developing knowledge and aligning it with the host-country environment during this phase involve both the internal *accumulation* of that knowledge and its subsequent incremental improvement – which we refer to as *stabilization* – in association with more experienced TEs (accumulation and stabilization are components of the *structuring* and *bundling* processes, respectively, in the resource orchestration model).

Some resources (including knowledge, skills, reputation, etc.) may be difficult to simply acquire, so it is necessary to accumulate them (i.e., develop them internally, but with the assistance of other members of the Diaspora network). Accumulation, which denotes the development of internal organizational facilitators or organizational structures that operate with the new knowledge, allows firms to create unique resource portfolios. The accumulation of knowledge in turn facilitates structuring processes (such as gaining perspective, organizational design/model development, etc.).

The knowledge thus accumulated often requires adaptation in order to fit the host-country institutional, business and social environment. This refinement takes place during the process of *stabilization*, triggered by the encounter between the transnational business unit and the communities of practice within the Diaspora network. Once the Diaspora practice of reciprocity is adopted, the network is recognized for its facilitative functions in the stabilization of the accumulated (i.e. internally developed) knowledge. Along with general incremental improvements to existing capabilities, stabilization encompasses the verification of prior knowledge and practices.

By accumulation and stabilization, because of the interaction between developing a portfolio of knowledge and aligning it with the host-country environment (i.e. resource structuring and bundling), a TE's company can develop capabilities that are more context-specific and thereby enhance its competitiveness.

Knowledge divesting & pioneering - “Initiation”

The final cycle of resource orchestration involves two further processes: in the first, Diaspora-*enriched* or -*stabilized* knowledge that does not function in the expected manner is *divested*. In the second, the gap thus created is filled by knowledge creation activities carried out jointly with other Diaspora members (*pioneering*). At this point the knowledge acquisition orientation (observed in the *preparation* and the *paradigm shift* cycles) is replaced by a knowledge creation orientation. The change leads to a higher demand for the managerial acumen necessary for pioneering activity.

DISCUSSION AND CONCLUSION

In this paper, we contribute to the understanding of the influence of networks on companies' chances of survival by examining the Diaspora's impact on transnational entrepreneurial companies experiencing resource constraints but successfully embedding themselves in communities that facilitate the acquisition and development of crucial capabilities.

We demonstrate that the resource orchestration approach illuminates how a firm's Diaspora embeddedness helps to enhance competitive capabilities and increase chances of survival.

Our analysis supports previous results showing that the possession of social capital is directly related to the formation and procurement of knowledge, in the cases in which companies have the organizational competences to achieve interdependence with other parties (Nahapiet and Ghoshal, 1998; and Yli-Renko, Autio, and Sapienza, 2001). Our addition consists in a model that builds upon the resource orchestration theory (Sirmon, Hitt, Ireland, and Gilbert, 2011). The resource orchestration model as framed by Sirmon, Hitt, Ireland, and Gilbert (2011) contains no sequential element (i.e., structuring, bundling, and leveraging activities could conceivably occur simultaneously). Although they see each of the component processes of resource orchestration as important, they argue that the actual synchronization of these processes on a micro level is foremost for the value creation process (Sirmon, Hitt, and Ireland, 2007; and Sirmon, Gove, and Hitt, 2008). By contrast, we have found it necessary introduce a temporal element to the resource orchestration approach, arguing that companies determined to overcome the liabilities of foreignness engage in a *sequence* of processes of *preparation*, *paradigm shift* and *initiation*, to develop a portfolio of knowledge and align it with the host-country environment.

Our findings could be regarded as an advancement of the literature concerned with the difficulties that internationalizing companies experience (Cuervo-Cazurra, Maloney, and Manrakhan, 2007; and Madhok and Keyhani, 2012), as well as an addition to the discussion on the concept of LOF.

We have examined companies that attempt to reduce LOF, rather than offset them by the possession of an easily commercializable tangible resource (e.g. technological innovation). However, it is possible that entrepreneurial companies in possession of such resources still strive to reduce LOF. In that sense, exploring the interplay between LOF offsetting and reduction is a potentially interesting avenue for additional future research.

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